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August 19, 2016

To: Supervisor Hilda L. Solis, Chair
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From: Sachi A. Hamai
Chief Executive Officer

FIRST FISCAL YEAR 2016-17 BI-ANNUAL UPDATE ON THE COUNTY'S JUST IN REACH - PAY FOR SUCCESS INITIATIVE

On August 11, 2015, the Board approved the Just in Reach (JIR) program as Los Angeles County's (County) first Pay for Success (PFS)¹ initiative. The Board directed the Chief Executive Officer (CEO) and PFS work group to provide bi-annual reports on program status and move forward with the following:

1. Select an evaluator, project manager, and service provider to implement the project;
2. Apply for AB 1837 and other State and federal funding opportunities to support the project and provide potential success payments for the JIR program; and
3. Identify other funding partners.

Moreover, on January 19, 2016, the Board directed the CEO to provide bi-annual updates on the County's grant application for AB 1837² and on JIR program status. In response to both Board motions, this is the third status update on the selected project's progress to date, and the first status update for fiscal year 2016-17.

¹ The PFS Model: Governments, service providers, and funders agree on achieving pre-determined outcomes for a vulnerable, underserved population. Private funders and/or philanthropy provide operating costs to fund service providers. If targeted outcomes are achieved, government makes "success payments" to the funders, who may recycle their return back into the program.

² Assembly Bill (AB) 1837 (Atkins) enacted the Social Innovation Financing Program (SIF) to be administered by the California Board of State and Community Corrections (BSCC) and funded through the Recidivism Reduction Fund.

This report presents five (5) components of the project pre-launch work plan and an overall timeline to launch the project by July, 2017:

- I. Program design and implementation
- II. Financial model
- III. Evaluation plan
- IV. Funder outreach
- V. Contracting

Please note, future status reports will be provided by the Department of Health Services (DHS), project manager of the County's JIR PFS project.

I - Program Design and Implementation

As stated in the February 11, 2016 report, DHS and the Corporation for Supportive Housing (CSH), the intermediary partner, will jointly manage the project. The Sheriff's Department, CEO, County Counsel, and Third Sector Capital Partners (TSCP) continue to support project development.

Building upon DHS's existing Housing for Health program, and the CSH's JIR 2.0 project, the County's first PFS project will focus on the end-to-end provision of holistic, supportive jail in-reach (assessment and case management) and post-release permanent supportive housing services. The five year project will create a total of 300 permanent supportive housing slots for homeless Los Angeles County inmates who have frequent contact with the criminal justice system. Priority will be given to homeless individuals with mental health and/or substance use issues, as recent research has shown, that these factors contribute to negative housing and recidivism.

During the project development phase, the team has been working to establish: a financial model, success metrics, multi-year program budget, and a comprehensive program policy guide to outline eligibility criteria, enrollment protocol, operations, and roles of partners.

Ramp-Up Period

The team began a ramp-up phase in July, 2016. The purpose of the ramp-up is to ensure monthly enrollment rates over a two-year period once the project launches in July, 2017. Four service providers from DHS's Supportive Housing Services Master Agreement will provide participants with intensive case management services throughout the program, beginning while in custody and continuing as they enter permanent supporting housing. A total of 200 (out of 1,000) housing slots have been designated by the DHS Office of Diversion and Re-entry for the PFS ramp-up phase. Moreover, the County's Flexible Housing Subsidy Pool will be utilized to locate housing and provide rental subsidy payments for participants of the PFS project. The existing DHS-contracted provider, Brilliant Corners,

operates the County's Flexible Housing Subsidy Pool to offer housing location services, on-going rental subsidy payments, and housing retention services.

Project Cost

The total estimated program cost to serve 300 individuals over a five year period is \$21.4 million. Table 1 shows estimated cost for three program components: rental subsidy, case management, and other services/support. Private and County funding will cover rental subsidies. Case management will be funded through Medi-Cal and other sources. Grants will fund other services/supports, including an evaluator, project manager, and County staff.

Table 1: County JIR PFS Estimated Budget

Component	Source	Amount
Rental Subsidy and Move in Costs (300 slots)	Private Funders and County Funding	14,250,000
Case Management (300 slots)	Medi-Cal and Other Sources	6,300,000
Other Services/Support	Portion of BSCC/HUD Grant Funding ³	850,000
Total Estimated Project Budget		\$21,400,000

II. PFS Financial Model, Success Metrics and Related Payment Triggers

This section focuses on the total rental subsidy costs of \$14.25 million (shaded in Table 1). The projected PFS total to be raised by private and philanthropic investors is estimated at \$10 million, which will provide most of the \$14.25 million in rental subsidy costs. Below is a description of the PFS financing or success payments from the remaining grant funding (HUD/DOJ, BSCC) and County funds. In this PFS model, upfront financial risks of expanding this program and meeting the housing and recidivism outcomes are shifted to private funders.

Based upon the project's PFS financial model, up to \$16.1 million in success payments are envisioned to come from the following sources, as shown in Table 2.

Table 2: Sources of Funding for the Success Payment

Source of Funding	Amount
U.S. Department of Housing and Urban Development/Department of Justice grant award	650,000
Board of State and Community Corrections grant award	1,800,000
Net County Cost (NCC)	13,650,000
Total	\$16,100,000

³ Grant funding awarded: 1) California Board of State and Community Corrections (BSCC) (\$2 million), and 2) U.S. Department of Housing and Urban Development/Department of Justice (HUD/DOJ) (\$1.3 million). The \$850,000 in other services/supports will be paid for through \$200,000 in BSCC funds and \$650,000 in HUD/DOJ funds.

Table 3 describes how the success payment will be used. From \$16.1 million, a total of \$4.25 million will be used to pay for a portion of rental subsidy costs. Assuming the project meets pre-determined outcomes, funders would receive repayment of \$10 million and interest of \$1.4 million (below market interest rate). The remaining surplus would total \$550,000, and if the project performs better than expected, the distribution of these funds to partners and the County would be determined.

Table 3: Uses of Success Payment *(if pre-determined outcomes are met for participants)*

Use of Funding	Est. Amount
Remaining cost of rental subsidies	\$14.25 M { 4,250,000 10,000,000 1,300,000 550,000
Repayment to private funders	
Interest to funders (below market rate)	
Remaining funding (success incentive)	
Total	\$16,100,000

For success payments, the County will appropriate funds to ultimately pay back funders, if the project is successful. The first round of success payments are expected to be issued one year after program launch in July, 2018. Success payments to funders will be based on individual participant outcomes for: 1) housing retention at six months; 2) housing retention at 12 months; and 3) reduced returns to jail during the first 24 months post-enrollment. Currently, the work group is analyzing existing data to determine expected housing retention and recidivism rates.

In addition, the CEO is working with DHS to forecast annual NCC repayment to funders for the five (5) year program which is estimated at \$11.4 million (principal and interest). Note that the estimated total to be raised by investors, and the estimated total amount for repayment, will be refined as the work group reviews additional outcome data and further develops the financial model. These projections will be based upon the assumption that all 300 participants meet favorable housing retention and recidivism outcomes. After the program launches, an evaluation of outcomes is expected to occur, after a set period of time, to show the program's actual impact on housing retention and reduction in recidivism. Based on evaluation findings, the CEO would then annually reassess the level of repayment in order to determine the amount to appropriate in the County's budget for the next fiscal year. Likewise, funding source(s) would be identified, and DHS will keep the CEO informed about other potential state and federal funding sources available for success payments.

Please note that all budgetary, success payment, and total private and philanthropic investor figures are subject to further refinement.

State and Federal Funding Update

In February, 2016, the County team submitted two grant applications for a State and a federal funding opportunity, and the Los Angeles County PFS project has been awarded a total of \$3.3 million in funding from both grant awards. The funding will support the JIR PFS initiative aimed to address homelessness and reduce recidivism among the County's homeless, justice-involved population.

First, DHS was awarded a \$2 million grant from the California BSCC to support this effort in March, 2016. The majority (\$1.8 million) will be used by the County for success payments (to repay funders once outcomes have been achieved). The grants will allow DHS, in collaboration with the CSH, CEO, Sheriff, and TSCP, to develop the JIR PFS project.

Second, the HUD and the DOJ awarded CSH, the County's PFS intermediary, \$1.3 million for the PFS Permanent Supportive Housing Demonstration Program in June, 2016. The County is one of seven grantees to have won part of an \$8.7 million grant from HUD/DOJ for PFS initiatives. The grant will support program design and evaluation and \$650,000 will be used as success payments on behalf of Los Angeles County to repay funders.

III - Evaluation Plan

During the pre-launch phase, an evaluator identifies data inputs, data collection, and an evaluation methodology to develop an objective process for determining whether targeted outcomes have been achieved. For this project, CSH will hold the contract with the evaluator. A portion of the evaluation funding (\$250,000) will be supported by the HUD/DOJ grant award. Therefore, a Request for Proposal (RFP) process will be initiated by CSH in August, 2016, and a contract with the selected evaluator, as well as an evaluation plan are to be finalized by October, 2016. Designing the evaluation and data collection plan will be critical for determining whether program participants meet targeted outcomes. Findings from the evaluation will indicate the amount of success payments that the County is to pay funders.

IV - Funder Outreach

Engaging funders and securing financing for upfront funds is required for program operations, including evaluation and project management. In May, 2016, DHS and CSH held a web-based funder outreach event with more than 10 potential funders participating. Since the May, 2016 meeting, DHS and CSH have been following up with potential investors in one-on-one updates. Another funder outreach event will occur in September, 2016.

The PFS work group is also working with TSCP to develop a PFS financial model. An initial draft of the working model is to be completed in September, 2016. This model will be presented to funders by November, 2016.

In addition to a fall update, potential investors will be invited to Los Angeles for a site visit in early November, 2016. The site visit will provide potential investors an opportunity to do a deep dive into program design, success metrics, budgets, and proposed term sheets. In addition, this will provide an opportunity for potential investors to see the intervention in action. Investors will participate in a site visit to meet providers working on the project, tour program facilities, and view program housing.

DHS and CSH are currently crafting a formal funding request to support the Pay for Success project to the Conrad N. Hilton Foundation. If advanced, the funding request will go before Conrad N. Hilton Board Members at their November meeting.

IV - Contracting

Contracts for pre-launch activities, as well as the actual PFS contract, will be developed with the intermediary, service providers, the evaluator, and funders. Prior to the final negotiation within the core contract, the County team, CSH, and TSCP will develop a payment structure for success payments.

CSH is currently working to form a Special Purpose Vehicle (SPV) in order to perform the role of fiscal intermediary. County Counsel and the PFS workgroup have been in regular communication regarding contract development, with the next meeting scheduled for late August, 2016. We anticipate the formation of the SPV to be completed by early October, 2016, and a full draft of the contract to be developed in time for the early November, 2016, funder site visit.

Next Steps and Project Timeline

The County team and partners are developing a work plan for the project development phase through expected program launch by July, 2017. The table summarizes the timeline that consists of the following project components.

Component	Key Tasks for Project Launch	Completion
Program Design	<ul style="list-style-type: none">• Finalize intervention model; referral pathway	Completed
Financial Model	<ul style="list-style-type: none">• Finalize financial model	April, 2017
Evaluation Plan	<ul style="list-style-type: none">• Determine evaluation methodology and plan• Finalize contract with evaluator	October, 2016
Contracting	<ul style="list-style-type: none">• Framework of Special Purpose Vehicle (SPV)• Finalize PFS contract	October, 2016 June, 2017
Funder Outreach	<ul style="list-style-type: none">• Funder engagement/site visit• Funder negotiation	November, 2016 April, 2017
Implementation	<ul style="list-style-type: none">• Project launch	July, 2017

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In the future, DHS will update the Board with a written report on the County's progress bi-annually with the next update to be provided in February, 2017. If you have questions, or need additional information, please contact Fesia Davenport at fdavenport@ceo.lacounty.gov or at (213) 974-1186.

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